



Nongoma Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2015

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## General Information

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Legal form of entity	Nongoma Municipality
Executive committee	His Worship Mayor Cllr JB Mavundla Honourable Deputy Mayor Cllr TB Nyoka Honourable Speaker Cllr NA Mchunu Cllr SC Mataba Cllr ME Ndwandwe Cllr SM Zulu Cllr WS Zungu Cllr NC Ntshangase Cllr HS Ngwenya
Councillors	Cllr MV Ntombela Cllr BJ Ntshangase Cllr M Zungu Cllr EM Masango Cllr GB Nyembe Cllr TJ Khumalo Cllr DV Gabuza Cllr TM Dludla Cllr NS Manqele Cllr MV Zulu Cllr NF Zulu Cllr ZI Mtshali Cllr MA Gumbi Cllr QM Dlamini Cllr SB Gumbi Cllr NF Zungu Cllr ZH Ntuli Cllr MS Majola Cllr BW Zulu Cllr BD Ngubo Cllr Khanyi Cllr DL Khoza Cllr PD Ndlovu Cllr V Zulu Cllr MN Sokhela Cllr Z Mthethwa Cllr RF Myeza Cllr SJ Zulu Cllr DT Mpanza Cllr M Gcina Cllr AN Xulu Cllr NG Xaba
Grading of local authority	3
Accounting Officer	Mr BE Ntanzi
Chief Finance Officer (CFO)	Mr MPE Mthembu
Registered office	PO Box 84 Nongoma

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## General Information

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	3950
<b>Business address</b>	103 Main Road Nongoma 3950
<b>Auditors</b>	Auditor General of South Africa
<b>Attorneys</b>	M Magigaba Incorporated
<b>Business Telephone</b>	035 831 7500
<b>Business Fax</b>	035 831 3152

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Nongoma Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 5 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on behalf of the municipality

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**Mr BE Ntanzi**  
**Accounting Officer**

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
VAT receivable	9	265,834	406,914
Receivables from non exchange transactions	7	36,490	(6,533)
Consumer debtors	10	15,294,719	11,763,338
Prepayments	8	527,640	-
Cash and cash equivalents	11	15,677,729	959,918
		<b>31,802,412</b>	<b>13,123,637</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	252,919,738	229,698,521
Intangible assets	4	176,923	265,231
		<b>253,096,661</b>	<b>229,963,752</b>
<b>Total Assets</b>		<b>284,899,073</b>	<b>243,087,389</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	12	94,480	139,978
Operating lease liability	5	95,578	127,314
Payables from exchange transactions	17	16,216,671	21,132,718
Unspent conditional grants and receipts	13	1,405,579	(3,723,877)
Current Portion of Instalment Sale Agreement	15	333,135	282,359
Short Term Loans	16	-	2,700,000
		<b>18,145,443</b>	<b>20,658,492</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	12	-	94,480
Employee benefit obligation	6	1,828,423	2,409,423
Provisions	14	5,845,225	3,203,639
Instalment Sale Agreement	15	26,763	358,428
		<b>7,700,411</b>	<b>6,065,970</b>
<b>Total Liabilities</b>		<b>25,845,854</b>	<b>26,724,462</b>
<b>Net Assets</b>		<b>259,053,219</b>	<b>216,362,927</b>
<b>Net Assets</b>			
Accumulated surplus		259,053,215	216,362,927

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
Service charges	20	1,654,134	1,515,342
Rental of facilities and equipment		116,562	117,047
Interest received on Outstanding Debtors		1,896,522	1,355,643
Licences and permits		625,053	677,920
Other income	22	371,922	931,238
Interest received		1,135,125	476,343
Property rates	19	14,729,173	12,319,540
Government grants & subsidies	21	143,096,604	144,071,982
Fines		587,798	334,063
<b>Total revenue</b>	<b>18</b>	<b>164,212,893</b>	<b>161,799,118</b>
<b>Expenditure</b>			
Personnel	24	(50,114,016)	(50,031,631)
Remuneration of councillors	25	(11,276,904)	(9,847,212)
Depreciation and amortisation	28	(12,859,407)	(17,624,373)
Finance costs	29	(928,812)	(367,826)
Debt impairment	26	(2,145,190)	(2,630,243)
Repairs and maintenance		(6,674,726)	(4,492,393)
Contracted services		(4,270,766)	(4,606,700)
Grants and subsidies paid		(210,820)	(134,396)
General Expenses	23	(33,848,053)	(33,122,633)
<b>Total expenditure</b>		<b>(122,328,694)</b>	<b>(122,857,407)</b>
<b>Operating surplus</b>		<b>41,884,199</b>	<b>38,941,711</b>
Fair value adjustments	27	86,959	347,546
<b>Surplus for the year</b>		<b>41,971,158</b>	<b>39,289,257</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 1 July 2013</b>	<b>177,216,360</b>	<b>177,216,360</b>
Changes in net assets		
Prior year adjustment	(142,690)	(142,690)
Surplus for the year - restated	39,289,257	39,289,257
Total recognised income and expenses for the year	39,146,567	39,146,567
Total changes	39,146,567	39,146,567
<b>Balance at 01 July 2014</b>	<b>216,362,927</b>	<b>216,362,927</b>
Changes in net assets		
Adjustments directly to Accumulated Surplus	719,130	719,130
Net income (losses) recognised directly in net assets	719,130	719,130
Surplus for the year	41,971,158	41,971,158
Total recognised income and expenses for the year	42,690,288	42,690,288
Total changes	42,690,288	42,690,288
<b>Balance at 30 June 2015</b>	<b>259,053,215</b>	<b>259,053,215</b>



# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		22,255,346	16,563,999
Grants		143,096,604	144,071,982
Interest income		1,135,125	476,343
		166,487,075	161,112,324
<b>Payments</b>			
Employee costs		(61,390,920)	(59,878,843)
Suppliers		(49,882,070)	(50,441,033)
Finance costs		(928,812)	(367,826)
		(112,201,802)	(110,687,702)
<b>Net cash flows from operating activities</b>	31	<b>54,285,273</b>	<b>50,424,622</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(36,446,595)	(53,006,075)
<b>Cash flows from financing activities</b>			
Movement in instalment sale agreement		(280,889)	(280,404)
Movement in financial liabilities		(2,700,000)	2,700,000
Movement in operating lease liability		-	114,177
Movement in finance lease liabilities		(139,978)	222,333
<b>Net cash flows from financing activities</b>		<b>(3,120,867)</b>	<b>2,756,106</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>14,717,811</b>	<b>174,653</b>
Cash and cash equivalents at the beginning of the year		959,918	785,265
<b>Cash and cash equivalents at the end of the year</b>	11	<b>15,677,729</b>	<b>959,918</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
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Figures in Rand - Budget rounded to nearest R 1000

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	1,601,966	-	1,601,966	1,654,134	52,168
Rental of facilities and equipment	176,649	(12,426)	164,223	116,562	(47,661)
Interest received (trading)	-	-	-	1,896,522	1,896,522
Licences and permits	1,010,000	(369,840)	640,160	625,053	(15,107)
Interest earned - External investments	-	-	-	371,922	371,922
Interest received	511,728	675,252	1,186,980	1,135,125	(51,855)
Other revenue	628,362	(234,151)	394,211	-	(394,211)
<b>Total revenue from exchange transactions</b>	<b>3,928,705</b>	<b>58,835</b>	<b>3,987,540</b>	<b>5,799,318</b>	<b>1,811,778</b>

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	28,381,960	(10,178,022)	18,203,938	14,729,173	(3,474,765)
Government grants & subsidies	100,870,000	(150,000)	100,720,000	101,720,476	1,000,476

##### Transfer revenue

Fines	71,320	307,494	378,814	587,798	208,984
<b>Total revenue from non-exchange transactions</b>	<b>129,323,280</b>	<b>(10,020,528)</b>	<b>119,302,752</b>	<b>117,037,447</b>	<b>(2,265,305)</b>
<b>Total revenue</b>	<b>133,251,985</b>	<b>(9,961,693)</b>	<b>123,290,292</b>	<b>122,836,765</b>	<b>(453,527)</b>

#### Expenditure

Personnel	(49,590,511)	(232,713)	(49,823,224)	(50,114,016)	(290,792)
Remuneration of councillors	(11,052,242)	(372,287)	(11,424,529)	(11,276,904)	147,625
Depreciation and amortisation	(10,587,673)	2,000,000	(8,587,673)	(12,859,407)	(4,271,734)
Finance costs	(462,398)	417,472	(44,926)	(928,812)	(883,886)
Debt impairment	(1,271,844)	-	(1,271,844)	(2,145,190)	(873,346)
Repairs and maintenance	-	-	-	(6,674,726)	(6,674,726)
Contracted Services	(15,632,397)	590,965	(15,041,432)	(4,270,766)	10,770,666
Grants and subsidies paid	(122,184)	(18,475)	(140,659)	(210,820)	(70,161)
General Expenses	(35,729,818)	4,153,999	(31,575,819)	(33,848,053)	(2,272,234)
<b>Total expenditure</b>	<b>(124,449,067)</b>	<b>6,538,961</b>	<b>(117,910,106)</b>	<b>(122,328,694)</b>	<b>(4,418,588)</b>
<b>Operating surplus</b>	<b>8,802,918</b>	<b>(3,422,732)</b>	<b>5,380,186</b>	<b>508,071</b>	<b>(4,872,115)</b>
Fair value adjustments	-	-	-	86,959	86,959
Capital Grants	45,679,000	-	45,679,000	41,376,128	(4,302,872)
	<b>45,679,000</b>	<b>-</b>	<b>45,679,000</b>	<b>41,463,087</b>	<b>(4,215,913)</b>

<b>Surplus before taxation</b>	<b>54,481,918</b>	<b>(3,422,732)</b>	<b>51,059,186</b>	<b>41,971,158</b>	<b>(9,088,028)</b>
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<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>54,481,918</b>	<b>(3,422,732)</b>	<b>51,059,186</b>	<b>41,971,158</b>	<b>(9,088,028)</b>
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# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand - Budget rounded to the nearest R 1000					

### Statement of Financial Position

#### Assets

##### Current Assets

Receivables from non-exchange transactions	3,594,782	(3,095,864)	498,918	36,490	(462,428)
VAT receivable	-	-	-	265,834	265,834
Consumer debtors	28,138,509	(17,869,163)	10,269,346	15,294,719	5,025,373
Prepayments	-	-	-	527,640	527,640
Cash and cash equivalents	8,478,592	(3,182,585)	5,296,007	15,677,729	10,381,722
	40,211,883	(24,147,612)	16,064,271	31,802,412	15,738,141

##### Non-Current Assets

Property, plant and equipment	317,697,623	(46,857,585)	270,840,038	252,919,736	(17,920,302)
Intangible assets	36,107	42,935	79,042	176,923	97,881
	317,733,730	(46,814,650)	270,919,080	253,096,659	(17,822,421)
<b>Total Assets</b>	<b>357,945,613</b>	<b>(70,962,262)</b>	<b>286,983,351</b>	<b>284,899,071</b>	<b>(2,084,280)</b>

#### Liabilities

##### Current Liabilities

Finance lease obligation	-	-	-	94,480	94,480
Operating lease liability	-	-	-	95,578	95,578
Payables from exchange transactions	23,167,450	(4,821,141)	18,346,309	16,216,671	(2,129,638)
Unspent conditional grants and receipts	-	-	-	1,405,579	1,405,579
Provisions	1,054,835	290,693	1,345,528	-	(1,345,528)
Current Portion of Instalment Sale Agreement	1,102,072	(795,704)	306,368	333,135	26,767
	25,324,357	(5,326,152)	19,998,205	18,145,443	(1,852,762)

##### Non-Current Liabilities

Employee benefit obligation	-	-	-	1,828,423	1,828,423
Provisions	3,414,214	853,320	4,267,534	5,845,225	1,577,691
Instalment Sale Agreement	7,996,542	(7,944,482)	52,060	26,763	(25,297)
	11,410,756	(7,091,162)	4,319,594	7,700,411	3,380,817
<b>Total Liabilities</b>	<b>36,735,113</b>	<b>(12,417,314)</b>	<b>24,317,799</b>	<b>25,845,854</b>	<b>1,528,055</b>
<b>Net Assets</b>	<b>321,210,500</b>	<b>(58,544,948)</b>	<b>262,665,552</b>	<b>259,053,217</b>	<b>(3,612,335)</b>

#### Net Assets

##### Net Assets Attributable to Owners of Controlling Entity

##### Reserves

Accumulated surplus	321,210,500	(58,544,948)	262,665,552	259,053,216	(3,612,336)
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# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand - Budget rounded to the nearest R 1000					

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Rate Payers & Other	17,522,454	4,083,007	21,605,461	23,390,471	1,785,010
Grants- operational	100,870,000	(150,000)	100,720,000	101,720,476	1,000,476
Grants - Capital	45,679,000	-	45,679,000	41,376,128	(4,302,872)
	164,071,454	3,933,007	168,004,461	166,487,075	(1,517,386)

##### Payments

Suppliers & Employees	(108,031,786)	(4,208,354)	(112,240,140)	(112,201,802)	38,338
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<b>Net cash flows from operating activities</b>	<b>56,039,668</b>	<b>(275,347)</b>	<b>55,764,321</b>	<b>54,285,273</b>	<b>(1,479,048)</b>
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#### Cash flows from investing activities

Capital assets	(57,938,000)	8,395,000	(49,543,000)	(36,446,595)	13,096,405
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#### Cash flows from financing activities

Repayment of borrowings	(281,837)	(2,745,448)	(3,027,285)	(3,120,867)	(93,582)
Interest income	511,728	675,251	1,186,979	-	(1,186,979)
Finance costs	(462,398)	417,472	(44,926)	-	44,926

<b>Net cash flows from financing activities</b>	<b>49,330</b>	<b>1,092,723</b>	<b>(36,372,346)</b>	<b>(3,120,867)</b>	<b>36,372,346</b>
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Net increase/(decrease) in cash and cash equivalents	(2,130,839)	6,466,928	4,336,089	14,717,811	47,989,703
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Cash and cash equivalents at the beginning of the year	10,429,666	(9,469,748)	959,918	959,918	-
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<b>Cash and cash equivalents at the end of the year</b>	<b>8,298,827</b>	<b>(3,002,820)</b>	<b>5,296,007</b>	<b>15,677,729</b>	<b>47,989,703</b>
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# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### Going Concern Assumption

These annual financial statements have been prepared on a going concern basis.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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### 1.3 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	
• Buildings	25-30 years
Infrastructure	
• Roads	10-50 years
Other property, plant and equipment	
• Machinery and equipment	4-5 years
• Furniture and office equipment	7-10 years
• Computers	5 years
Motor vehicles	7 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

# Nongoma Local Municipality

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### 1.4 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.



# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.5 Financial instruments (continued)

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

# Nongoma Local Municipality

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### 1.5 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.5 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.5 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Nongoma Local Municipality

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### 1.5 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.6 Leases (continued)

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.7 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# Nongoma Local Municipality

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### 1.7 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# **Nongoma Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.7 Impairment of non-cash-generating assets (continued)**

#### **Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.8 Employee benefits**

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.



# Nongoma Local Municipality

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## Accounting Policies

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### 1.8 Employee benefits (continued)

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### 1.9 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

## Accounting Policies

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### 1.9 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and 1.7.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.10 Revenue from exchange transactions (continued)

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.11 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.11 Revenue from non-exchange transactions (continued)

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.11 Revenue from non-exchange transactions (continued)

#### Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.12 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year as per note 33 - Prior period error.

### 1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act and the Municipal Systems Act and has not been condoned by the said Acts; or
- (b) the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (c) the requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.16 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.17 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.18 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2014 to 30/06/2015.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.19 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The relationships above as well as transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.20 Commitments

The municipality will disclose authorised capital expenditure, that which has been approved and contracted for and that which has been approved and not yet contracted for. Outstanding operating lease commitments owing by the municipality and the periods in which payments fall due will also be disclosed.

### 1.21 Events after the reporting date

Events after the reporting date are those events both favourable and unfavourable, that occur between the reporting date and the date when the annual financial statements are authorised for issue. The entity will adjust the amounts recognised in the annual financial statements to reflect adjusting events after the reporting date once the event occurred.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	
<ul style="list-style-type: none"><li>GRAP 105: Transfers of functions between entities under common control</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>GRAP 106: Transfers of functions between entities not under common control</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>GRAP 107: Mergers</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>GRAP 20: Related parties</li></ul>	01 April 2014	Taken into account in preparation of financial statements.
<ul style="list-style-type: none"><li>IGRAP 11: Consolidation – Special purpose entities</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>GRAP 7 (as revised 2010): Investments in Associates</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>GRAP 8 (as revised 2010): Interests in Joint Ventures</li></ul>	01 April 2014	Currently not relevant.
<ul style="list-style-type: none"><li>GRAP 5: Borrowing Costs</li></ul>	01 April 2013	Taken into account in preparation of financial statements.

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
<ul style="list-style-type: none"><li>GRAP 18: Segment Reporting</li></ul>	01 April 2016
<ul style="list-style-type: none"><li>GRAP32: Service Concession Arrangements: Grantor</li></ul>	01 April 2015
<ul style="list-style-type: none"><li>GRAP108: Statutory Receivables</li></ul>	01 April 2015
<ul style="list-style-type: none"><li>IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset</li></ul>	01 April 2015
<ul style="list-style-type: none"><li>GRAP 109: Accounting by Principals and Agents</li></ul>	



# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment	Carrying value
Land and Buildings	98,362,382	(37,697,875)	60,664,507	84,875,869	(30,360,805)	54,515,064
Infrastructure	89,063,004	(12,606,794)	76,456,210	85,356,159	(8,507,631)	76,848,528
Other property, plant and equipment	10,847,747	(6,076,125)	4,771,622	11,529,324	(6,296,452)	5,232,872
Leased Assets	39,584	(28,390)	11,194	39,584	(22,802)	16,782
Assets Under Construction	121,491,452	(10,475,247)	111,016,205	103,560,522	(10,475,247)	93,085,275
<b>Total</b>	<b>319,804,169</b>	<b>(66,884,431)</b>	<b>252,919,738</b>	<b>285,361,458</b>	<b>(55,662,937)</b>	<b>229,698,521</b>

### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Newly Identified	Disposals	Transfers	Depreciation	Impairment loss	Total
Land and Buildings	54,515,064	-	-	-	13,486,514	(4,031,902)	(3,305,169)	60,664,507
Infrastructure	76,848,528	-	-	-	3,706,844	(3,893,621)	(205,543)	76,456,208
Other property, plant and equipment	5,232,872	1,410,615	86,959	(541,238)	-	(1,417,586)	-	4,771,622
Leased Assets	16,782	-	-	-	-	(5,588)	-	11,194
Assets Under Construction	93,085,275	35,124,288	-	-	(17,193,358)	-	-	111,016,205
	<b>229,698,521</b>	<b>36,534,903</b>	<b>86,959</b>	<b>(541,238)</b>	<b>-</b>	<b>(9,348,697)</b>	<b>(3,510,712)</b>	<b>252,919,736</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Newly Identified	Disposals	Transfers	Depreciation	Impairment loss	Total
Land and Buildings	65,890,718	-	-	-	2,758,694	(13,629,074)	(505,274)	54,515,064
Infrastructure	43,328,277	-	-	-	35,243,342	(1,686,728)	(36,363)	76,848,528
Other property, plant and equipment	5,806,779	713,221	347,545	(8,502)	-	(1,581,115)	(45,056)	5,232,872
Leased Assets	25,158	-	-	-	-	(8,376)	-	16,782
Assets Under Construction	79,142,002	51,945,309	-	-	(38,002,036)	-	-	93,085,275
	<b>194,192,934</b>	<b>52,658,530</b>	<b>347,545</b>	<b>(8,502)</b>	<b>-</b>	<b>(16,905,293)</b>	<b>(586,693)</b>	<b>229,698,521</b>

### 4. Intangible assets

	2015		2014	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation
Computer software, other	891,601	(714,678)	176,923	891,601
			(626,370)	265,231

#### Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software, other	265,231	(88,308)	176,923

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 4. Intangible assets (continued)

#### Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software, other	397,616	(132,385)	265,231

### 5. Operating lease asset (accrual)

Current liabilities	(95,578)	(127,314)
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Operating lease payments are recognised on a straight-line basis. As a result, a lease accrual is recognised to account for the adjustment.

### 6. Employee benefit obligations

#### Defined benefit plan

The Municipality's personnel are members of the Natal Joint Pension retirement funds, including the Supernannuation Retirement and Provident Fund. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to the individual Municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans. An independent valuer carries out a statutory valuation of the NJMPF on a tri-annual and an interim valuation on an annual basis. The 2013 interim valuations have not yet been released.

#### Long Term Service Awards Benefits

The amounts recognised in the statement of financial position are as follows:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2,409,423	1,957,537
Current Service Cost	345,000	246,208
Interest Cost	182,000	149,033
Benefits paid	(299,000)	(69,074)
Acturial (gains)/losses	(809,000)	125,719
	<b>1,828,423</b>	<b>2,409,423</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.50 %	8.50 %
Expected increase in salaries	8.20 %	7.50 %

### 7. Receivables from non exchange transactions

	<b>2,015</b>	<b>2,014</b>
Sundry Revenue	(114,205)	(94,294)
Traffic Fines	150,695	87,761

Traffic fines have been raised on accrual basis based on the fines that have been issued. Recoverability of these fines have been assessed and a provision raised based on non-recoverability. The values reflected above are the recoverable amounts of traffic fines expected to be received.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>8. Prepayments</b>		
Prepaid Expense	527,640	-
SALGA membership fees for 2015/2016 were paid in advance.		
<b>9. VAT receivable</b>		
VAT	265,834	406,914
<b>10. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	16,682,601	12,578,791
Refuse	7,981,910	6,869,463
Other	422,473	966,170
	<b>25,086,984</b>	<b>20,414,424</b>
<b>Less: Allowance for impairment</b>		
Provision	(9,792,265)	(8,651,086)
<b>Net balance</b>		
Net Debtors	16,682,601	12,578,791
Other	1,017,952	966,170
Refuse	7,981,910	6,869,463
Provision	(9,792,265)	(8,651,086)
	<b>15,890,198</b>	<b>11,763,338</b>
<b>Rates</b>		
Current (0 -30 days)	68,642	245,957
31 - 60 days	296,492	121,394
61 - 90 days	206,887	(11,130,591)
91 - 120 days	375,495	645,674
121 - 365 days	15,735,086	22,696,356
	<b>16,682,602</b>	<b>12,578,790</b>
<b>Refuse</b>		
Current (0 -30 days)	78,624	118,916
31 - 60 days	106,975	93,672
61 - 90 days	64,636	63,835
91 - 120 days	118,147	107,568
121 - 365 days	7,613,528	6,485,471
	<b>7,981,910</b>	<b>6,869,462</b>
<b>Other</b>		
Current (0 -30 days)	5,373	1,243
31 - 60 days	3,023	9,251
61 - 90 days	1,047	5,126
91 - 120 days	869	3,126
121 - 365 days	404,961	351,945
	<b>415,273</b>	<b>370,691</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>10. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	822,102	791,199
31 - 60 days	777,959	756,760
61 - 90 days	799,526	604,703
91 - 120 days	873,858	775,351
121 - 365 days	16,209,253	16,600,587
	<b>19,482,698</b>	<b>19,528,600</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	(733,320)	(192,445)
31 - 60 days	(433,116)	(417,504)
61 - 90 days	(582,680)	(11,606,904)
91 - 120 days	(428,004)	(29,778)
121 - 365 days	(3,023,922)	13,351,280
	<b>(5,201,042)</b>	<b>1,104,649</b>
<b>National and provincial government</b>		
Current (0 -30 days)	63,857	(218,918)
31 - 60 days	61,648	(38,877)
61 - 90 days	55,724	(41,675)
91 - 120 days	55,857	19,349
121 - 365 days	10,568,242	8,938,858
	<b>10,805,328</b>	<b>8,658,737</b>
<b>Total</b>		
Current (0 -30 days)	152,639	(13,720)
31 - 60 days	406,491	(76,063)
61 - 90 days	272,570	(17,755)
91 - 120 days	501,711	(8,554)
121 - 365 days	23,753,573	(9,356,951)
	<b>25,086,984</b>	<b>(9,473,043)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(8,651,086)	6,288,519
Contributions to allowance	(1,141,179)	2,362,567
	<b>(9,792,265)</b>	<b>8,651,086</b>

Debtors with negative balances amounted to R457 920 (2014: R595 479).

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3,828	3,760
Bank balances	15,673,901	956,158
	<b>15,677,729</b>	<b>959,918</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand 2015 2014

### 11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
FNB - Cheque Account - 531-5327-8884	344,245	141,176	118,114	344,245	141,176	118,114
FNB - Bank Licencing Cheque - 622-0376-1962	240,273	6,302	9,220	240,273	6,302	9,220
FNB - MIG Cheque Acc - 622-0222-6751	13,826,622	34,891	1,970	13,826,622	34,891	1,970
FNB - Call Acc - 613-1500-0549	116,069	13,283	13,150	116,069	13,283	13,150
FNB - Fixed Deposit - 740-2387-9677	-	-	619,371	-	-	619,371
FNB - Cheque - 623-7063-9373	329,789	14,250	6,986	329,789	14,250	6,986
FNB - Cheque - 623-7306-3222	74,460	10,990	6,024	74,460	10,990	6,024
FNB - Cheque Acc - 623-7063-8573	36,674	67,717	5,679	36,674	67,717	5,679
FNB - 7 Day Notice - 744-2706-5468	705,769	667,551	-	705,769	667,551	-
<b>Total</b>	<b>15,673,901</b>	<b>956,160</b>	<b>780,514</b>	<b>15,673,901</b>	<b>956,160</b>	<b>780,514</b>

### 12. Finance lease obligation

#### Minimum lease payments due

- within one year	97,802	154,537
- in second to fifth year inclusive	-	97,803
	97,802	252,340
less: future finance charges	(3,322)	(17,882)
<b>Present value of minimum lease payments</b>	<b>94,480</b>	<b>234,458</b>

#### Present value of minimum lease payments due

- within one year	94,480	139,978
- in second to fifth year inclusive	-	94,480
	94,480	234,458
<b>Non-current liabilities</b>	<b>-</b>	<b>94,480</b>
<b>Current liabilities</b>	<b>94,480</b>	<b>139,978</b>
	<b>94,480</b>	<b>234,458</b>

It is municipality policy to lease certain cellphones from Nashua Mobile for a period of 2 years. Monthly lease instalments of an average of R310 each are payable in arrears. Interest is charged at 8.5% per annum.

Ownership will pass to the municipality at the end of the lease periods. The lease agreement does not provide for contingent lease payment. .

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>13. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
MSIG	(24,000)	24,716
Municipal Infrastructure Grant (MIG)	13,814,868	8,842,520
Tourism Grant from Zululand District Municipality	50,000	100,000
Integrated National Electricity Program	(29,148)	258,645
Pound Grant	-	380,000
EPWP	(393,590)	48,811
Neighbourhood Developement Partnership Grant	(12,159,891)	(13,645,019)
Cathseta	15,300	4,500
Sports Grant	126,787	256,697
Institutional Grant	5,253	5,253
	<b>1,405,579</b>	<b>(3,723,877)</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 14. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Rehabilitation of landfill site	3,203,639	2,641,586	5,845,225

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Rehabilitation of landfill site	2,511,512	692,127	3,203,639

#### Environmental rehabilitation provision

The provision for rehabilitation for landfill site represents management's best estimate of the municipality's liability relating to closure and rehabilitation of the site. These costs are expended in the year of closure and typically relate final shaping and compacting works, capping, top soiling and vegetation as well as constructing stormwater control systems. It also includes costs associated with erection of a proper fence (if not yet in place), decommissioning of any infrastructure and erection of end-use related infrastructure.

Rehabilitation costs were calculated based on the following assumptions:

- Site will be classified as communal
- Landfill footprint estimated on site. Coordinates of the footprint then determined through GPS. Area for rehabilitation measured from GPS
- No leachate control is required
- It is assumed that topsoil/ coversoil is available near the site
- As the site is currently not fenced, allowance has been made to fence the site.
- The site currently includes:
  - Preliminary and General items at 20% of construction item costs
  - Contingencies at 10% of total construction costs
  - Design Fees at 14% of total costs (construction and contingencies);
- All costs exclude VAT
- The Basic Assessment Report (BAR) process and waste license application requires the same effort for the licensed site. It is further assumed that no specialist studies will be required
- Post closure monitoring costs not included (assumed to be nominal as the site is communal)

The following factors may influence the actual costs of the environmental processes and construction works:

- Consolidation of various environmental authorisation processes may potentially result in a cost saving by up to 25%. A consolidated process however carries a risk that a complication with a single project component or aspect could result in a delay of the entire application and therefore the approval and implementation of all components.
- Infrastructure and facilities associated with each of the proposed upgrade works may trigger the need for additional authorisation processes or result in the need for an expanded statutory process (e.g. EIA instead of basic Assessment), resulting in a cost variation.



# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 14. Provisions (continued)

- Depending on the final location and the extent of the proposed landfill works, and the local environmental opportunities and constraints, specialist studies may be required.
- Legislative and environmental authorisation requirements (and their administration) are subject to change.
- Project costs were estimated using the current market related prices and are subject to escalation. The project commencement date and overall project duration will therefore have an effect on the final project costs.
- Public participation processes are inherently unpredictable and can be influenced by the level of interest shown by Interested and Affected Parties (I&APs) and the nature of the issues raised. Any Environment Assessment Practitioner undertaking the work will be legally and procedurally required to respond to such interest with due diligence.

### Provision for Long Service Award

The municipality has a policy to provide long service awards to employees who are continuously at the employment of the municipality based on the prescribed periodic brackets. The award is the remuneration of the employee as at the date of the award.

The discount rate used is based on market yields on government bonds as at the end of June 2015 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation. Factored into the valuation are also the demographic and mortality assumptions.

### 15. Instalment Sale Agreement

	2015	2014
Long term portion of instalment sale agreement	26,763	358,428
Current portion of instalment sale agreement	333,135	282,359

The Instalment Sale Agreement is with Absa Bank for the purchase of a motor vehicle at an interest rate of 8.75%. The loan is repayable over 60 months. The liability is secured against vehicles with a net book value of price of R 1 054 295.

### 16. Short Term Loans

	2,015	2,014
Short term loans	-	2,700,000

The municipality was granted two interest free short loans amounting to R 1 700 000 and R 1 000 000 respectively. These loans have subsequently been repaid during the current year.

### 17. Payables from exchange transactions

Trade payables	5,004,580	6,463,106
Third party deductions	(814)	-
Accrued Leave Pay	4,425,508	5,512,966
Deposits Received	41,993	36,312
Sundry Creditors	6,745,404	9,120,334
	<b>16,216,671</b>	<b>21,132,718</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>18. Revenue</b>		
Service charges	1,654,134	1,515,342
Rental of facilities and equipment	116,562	117,047
Interest received (trading)	1,896,522	1,355,643
Licences and permits	625,053	677,920
Sundry Income	371,922	931,238
Interest received - investment	1,135,125	476,343
Property rates	14,729,173	12,319,540
Government grants & subsidies	143,096,604	144,071,982
Fines	587,798	334,063
	<b>164,212,893</b>	<b>161,799,118</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1,654,134	1,515,342
Rental of facilities and equipment	116,562	117,047
Interest received (trading)	1,896,522	1,355,643
Licences and permits	625,053	677,920
Sundry Income	371,922	931,238
Interest received - investment	1,135,125	476,343
	<b>5,799,318</b>	<b>5,073,533</b>

The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	14,729,173	12,319,540
<b>Transfer revenue</b>		
Government grants & subsidies	143,096,604	144,071,982
Fines	587,798	334,063
	<b>158,413,575</b>	<b>156,725,585</b>

## 19. Property rates

### Rates received

Residential	16,760,085	15,819,824
Rates Clearance Certificates	-	560
Less: Income forgone	(2,030,912)	(3,500,844)
	<b>14,729,173</b>	<b>12,319,540</b>

### Valuations

Residential	103,209,000	103,209,000
Business	278,577,000	278,577,000
Special	620,042,000	620,042,000
Public Service Infrastructure	12,000	12,000
Vacant Land	8,528,000	8,528,000
Rural Communal Land	400,904,000	400,904,000
	<b>1,411,272,000</b>	<b>1,411,272,000</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013.

Rates are levied on a monthly basis.

## Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

### Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>20. Service charges</b>		
Refuse removal	1,654,134	1,515,342

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>21. Government grants and subsidies - Revenue from Non exchange Transactions</b>		
<b>Operating grants</b>		
Equitable share	96,234,000	81,166,715
Financial Management Grant	1,800,000	1,643,285
Municipal Systems Improvement Grant (MSIG)	958,716	865,284
Provincial Grant: Libraries	535,000	514,000
Tourism Grant	50,000	-
Government grant (operating) 7	81,260	-
Expanded Public Works Programme	1,434,590	956,300
Cathseta	(9,000)	13,500
Sports	129,910	43,303
Cyber Cadet Library Grant	126,000	120,000
Pound Grant	380,000	620,000
	<b>101,720,476</b>	<b>85,942,387</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	26,956,108	25,950,203
Integrated National Electrification	6,029,148	9,575,733
Neighbourhood Development Partnership Grant - NDPG	8,390,872	22,603,659
	<b>41,376,128</b>	<b>58,129,595</b>
	<b>143,096,604</b>	<b>144,071,982</b>
<b>Equitable Share</b>		
Current-year receipts	88,019,000	81,166,715
Unspent balance withheld	8,215,000	-
Revenue recognised	(96,234,000)	(81,166,715)
	<b>-</b>	<b>-</b>
The amount withheld is in respect of grant balances (MIG, MSIG, EPWP and INEG) that were not approved for roll forward.		
<b>Financial Management Grant (FMG)</b>		
Current-year receipts	1,800,000	1,650,000
Conditions met - transferred to revenue	(1,800,000)	(1,650,000)
	<b>-</b>	<b>-</b>
<b>Provincial Grant: Provincialisation of Libraries</b>		
Current-year receipts	535,000	514,000
Conditions met - transferred to revenue	(535,000)	(514,000)
	<b>-</b>	<b>-</b>
<b>Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of the year	8,842,520	7,321,777
Unspent balance withheld	(7,883,543)	-
Current-year receipts	39,812,000	27,343,000
Conditions met - transferred to revenue	(26,956,108)	(25,822,257)
	<b>13,814,869</b>	<b>8,842,520</b>
<b>Neighbourhood Development Partnership Grant (NDPG)</b>		
Balance unspent at beginning of the year	(13,645,020)	(17,131,270)
Current-year receipts	9,876,000	26,000,000

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>21. Government grants and subsidies - Revenue from Non exchange Transactions (continued)</b>		
Conditions met - transferred to revenue	(8,390,872)	(22,603,660)
Other	-	89,910
	<b>(12,159,892)</b>	<b>(13,645,020)</b>

Revenue Recognised amount to 2015: R 8 390 872 (2014: R 22 603 660). This was overspend. But monies have to be ring fenced to address the short comings

### MSIG

Balance unspent at beginning of the year	24,716	-
Unspent balance withheld	(24,000)	-
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(958,716)	(865,284)
	<b>(24,000)</b>	<b>24,716</b>

### Sport grant

Balance unspent at beginning of the year	256,697	-
Current-year receipts	-	300,000
Conditions met - transferred to revenue	(129,910)	(43,303)
	<b>126,787</b>	<b>256,697</b>

Conditions still to be met - remain liabilities (see note 13).

### Tourism Grant

Balance unspent at beginning of the year	100,000	50,000
Current-year receipts	-	50,000
Conditions met - transferred to revenue	(50,000)	-
	<b>50,000</b>	<b>100,000</b>

### Integrated National Electrification

Balance unspent at beginning of the year	258,646	9,834,378
Unspent balance withheld	(258,646)	-
Current-year receipts	6,000,000	-
Conditions met - transferred to revenue	(6,029,148)	(9,575,732)
	<b>(29,148)</b>	<b>258,646</b>

### Pound Grant

Balance unspent at beginning of year	380,000	1,000,000
Conditions met - transferred to revenue	(380,000)	(620,000)
	<b>-</b>	<b>380,000</b>

Conditions still to be met - remain liabilities (see note 13).

### Expanded Public Works Programme (EPWP)

Balance unspent at beginning of the year	48,811	5,111
Unspent balance withheld	(48,811)	-
Current-year receipts	1,041,000	1,000,000
Conditions met - transferred to revenue	(1,434,590)	(956,300)
	<b>(393,590)</b>	<b>48,811</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 21. Government grants and subsidies - Revenue from Non exchange Transactions (continued)

Conditions still to be met - remain liabilities (see note 13).

#### Cathseta grant

Balance unspent at beginning of the year	4,500	-
Current-year receipts	-	18,000
Conditions met - transferred to revenue	9,000	(13,500)
	<b>13,500</b>	<b>4,500</b>

Conditions still to be met - remain liabilities (see note 13).

#### Institutional Grant

Balance unspent at beginning of the year	5,253	5,253
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Conditions still to be met - remain liabilities (see note 13).

### 22. Other revenue

Other Income	371,922	931,238
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Other income relates to Sundry income received by the Departments of the Municipality. Sundry Revenue received is in respect of the following:

Sale of Documents

Building Plans

Electricity Switch on Function for which the Municipality was reimbursed

School patrol for which the Department of Transport pays the Municipality

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand		2015	2014
<b>23. General expenses</b>			
Advertising		1,344,084	333,463
Auditors remuneration	30	1,429,755	1,324,071
Bank charges		78,102	50,206
Cleaning		54,924	87,490
Consulting and professional fees		7,074,904	10,432,443
Donations		10,000	-
Entertainment		381,211	431,849
Insurance		575,115	542,264
Community development and training		7,615,614	4,613,969
Conference and Seminars		238,259	42,075
Lease rentals on operating lease		2,165,899	2,367,539
Fuel and oil		739,384	1,073,930
Printing and Stationery		461,269	501,711
Protective clothing		553,924	390,046
Research and development costs		-	1,063,863
Software expenses		624,508	661,979
Sundry Expenses		-	650
Subscriptions and membership fees		230,156	-
Telephone and fax		472,416	708,697
Transport and freight		245,020	73,018
Training		699,805	685,759
Travel - local		3,476,696	2,583,945
Electricity		426,490	419,422
Consumables		211,987	44,396
Other Expenses		1,896,970	3,297,566
Shared services		-	352,348
Disaster management		199,975	347,807
Restructuring		2,641,586	692,127
		<b>33,848,053</b>	<b>33,122,633</b>

Other expenses relates to the following expense items:

Integrated Development Plan planning expenses

Indigent burial and Pauper burial fees

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>24. Employee related costs</b>		
Basic	33,183,009	30,525,302
Bonus	2,502,537	2,168,192
Medical aid - company contributions	1,679,243	1,429,557
UIF	294,892	279,478
SDL	404,218	325,887
Leave pay provision charge	(1,043,396)	1,907,785
Provision for Long term Service Award	7,354,827	7,404,813
Travel, motor car, accommodation, subsistence and other allowances	3,855,299	3,900,049
Overtime payments	1,452,163	2,013,687
Other Benefits	431,224	76,881
	<b>50,114,016</b>	<b>50,031,631</b>

### Remuneration of Municipal Manager

Annual Remuneration	662,287	620,964
Allowance	66,306	62,205
Back Pay	34,455	25,474
Contributions to UIF, Medical and Pension Funds	1,785	4,332
Other	385,356	352,494
	<b>1,150,189</b>	<b>1,065,469</b>

The Other line item is in respect of travel and company contributions to skills and bargaining council.

### Remuneration of the Chief Finance Officer

Annual Remuneration	595,855	558,583
Allowance	53,045	49,764
Back Pay	27,428	23,280
Contributions to UIF, Medical and Pension Funds	11,407	11,897
Other	344,717	314,814
	<b>1,032,452</b>	<b>958,338</b>

The Other line item is in respect of travel and company contributions to skills.

### Remuneration of Executive Director: Corporate Services

Annual Remuneration	746,684	713,514
Allowance	49,208	107,499
Back Pay	23,946	8,122
Contributions to UIF, Medical and Pension Funds	35,736	34,854
Other	72,582	-
	<b>928,156</b>	<b>863,989</b>

The Other line item is in respect of travel and company contributions to skills and bargaining council.

### Remuneration of Director: Technical Services

Annual Remuneration	696,332	653,217
Car Allowance	46,414	43,543
Back Pay	34,208	23,623
Contributions to UIF, Medical and Pension Funds	1,785	4,166
Other	259,834	247,767
	<b>1,038,573</b>	<b>972,316</b>

The Other line item is in respect of travel and company contributions to skills and bargaining council.



# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>24. Employee related costs (continued)</b>		
<b>Remuneration of Executive Director: Community Services</b>		
Annual Remuneration	621,968	588,598
Allowance	49,208	46,164
Back Pay	28,074	15,181
Contributions to UIF, Medical and Pension Funds	41,745	41,268
Other	202,890	181,509
	<b>943,885</b>	<b>872,720</b>

The Other line item is in respect of travel and company contributions to skills and bargaining council.

### Remuneration of Executive Director: Planning Services

Annual Remuneration	761,874	710,230
Allowance	49,208	46,164
Back Pay	23,860	25,412
Contributions to UIF, Medical and Pension Funds	14,302	17,040
Other	77,483	65,150
	<b>926,727</b>	<b>863,996</b>

The Other line item is in respect of travel and company contributions to skills and bargaining council.

### Remuneration of Executive Director: Protection Services

Annual Remuneration	-	373,667
Back Pay	-	43,989
Contributions to UIF, Medical and Pension Funds	-	37,518
Other	-	97,026
Allowance	-	70,129
	-	<b>622,329</b>

The position of the Executive Director: Protection Services was vacant for the current year.

## 25. Remuneration of councillors

Mayor's Allowance	646,615	561,227
Deputy Mayor's Allowance	522,769	451,187
Executive Committee Allowances	1,658,949	2,555,052
Speaker's Allowance	522,521	453,257
Councillors	6,994,359	4,967,611
Pension	930,177	845,971
Skill Levy	1,514	12,907
	<b>11,276,904</b>	<b>9,847,212</b>

### In-kind benefits

Speaker is on full-time basis. The Honourable Mayor and Deputy Mayor are full-time with effect from 1 July 2012. The Mayor, Deputy Mayor and Speaker are each provided with an office and secretarial support at the cost of the Council.

The Honourable Mayor has three full-time bodyguards and three full-time drivers. Speaker has two full-time bodyguards.

## 26. Debt impairment

Contributions to debt impairment provision	2,145,190	2,630,243
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# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>27. Fair value adjustments</b>		
Property, plant & equipment	86,959	347,546
<b>28. Depreciation, amortisation and impairment</b>		
Property, plant and equipment	12,859,407	17,491,988
Intangible assets	88,308	132,385
	<b>12,947,715</b>	<b>17,624,373</b>
Reduction of depreciation was due to a change in estimate of the useful lives of assets.		
<b>29. Finance costs</b>		
Interest on bank overdraft	44,874	70,240
Unwinding of Interest	883,938	297,586
	<b>928,812</b>	<b>367,826</b>
<b>30. Auditors' remuneration</b>		
Fees	1,429,755	1,324,071
<b>31. Cash generated from operations</b>		
Surplus	42,690,292	39,289,257
<b>Adjustments for:</b>		
Depreciation, Impairment and amortisation	12,859,407	17,624,373
Fair value adjustments	(86,959)	(347,546)
Movement in provision for doubtful debtors	2,145,190	2,630,243
Movements in operating lease assets and accruals	(31,736)	(13,137)
Movements in retirement benefit assets and liabilities	(581,000)	-
Movements in provisions and employee benefit obligation	2,060,586	1,144,013
Other non-cash items	-	217,992
Disposal of property, plant and equipment	541,238	8,502
<b>Changes in working capital:</b>		
Consumer debtors	(3,531,281)	(4,034,988)
Other receivables from non-exchange transactions	(2,188,213)	(96,146)
Prepayments	(527,640)	-
Payables from exchange transactions	(4,916,047)	(2,856,555)
VAT	141,080	1,667,739
Unspent conditional grants and receipts	5,129,456	(4,809,125)
	<b>54,285,273</b>	<b>50,424,622</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 32. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• MIG Projects	-	6,546,137
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##### Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	-	8,000,000
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This committed expenditure relates to property and will be financed by grants, available bank facilities, retained surpluses, existing cash resources.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	1,703,054	1,803,996
- in second to fifth year inclusive	2,666,259	2,809,994
	<b>4,369,313</b>	<b>4,613,990</b>

Operating lease payments represent rentals for printers leased from Nashua Zululand and properties from Priscila Bond. No contingent rent is payable.

### 33. Contingencies

#### Contingent liabilities

The following are cases that were undertaken by other parties against the Municipality for which expected completion/ resolution is expected during the 2015 financial year:

- Labour Matter - Legal action was taken against the Municipality by an employee relating to termination of their contract. This action commenced on 30/04/2013 and is expected to be resolved during the 2015 financial year. The amount of the potential claim is R 958 428.

### 34. Related parties

#### Relationships

Accounting Officer

Councillors

Refer to accounting officer's report note

Refer to note 23

#### Related party transactions

Employee Related Costs	50,962,332	49,249,792
Councillors Remuneration	11,240,257	9,847,210

### 35. Prior period errors

#### 1. Finance Lease Liability

Future finance costs on leased assets were incorrectly raised as part of the finance lease liability

#### 2. Accrued Expenses

VAT was not recognised on accruals raised at year end. An invoice for membership fees for 2015/2016 was incorrectly raised as an accrual. Part of an invoice was raised twice as an accrual.

#### 3. Operating Leases

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 35. Prior period errors (continued)

Lease payments were not recognised on a straight line basis.

#### 4. VAT

A VAT Receivable account was incorrectly included in payables from exchange transactions .

### Statement of financial position

VAT Receivable	-	(53,612)
Finance Lease Obligation	-	17,882
Payables from exchange transactions	-	599,662
Operating Lease Liability	-	(127,314)
Accumulated Surplus	-	(436,618)

### Statement of Financial Performance

Repairs and Maintenance	-	(13,796)
General Expenses	-	(422,822)

### 36. Comparative figures

Comparative figures have been restated due to prior period adjustments. The effect of these changes are detailed in note 33.

### 37. Risk management

#### Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings in the form of Instalment sale obligation as disclosed in note 15 and 12, cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2015 and 2014 respectively were as follows:

#### Total borrowings

Finance lease obligation	12	94,480	252,340
Other financial liabilities	15	359,898	3,059,666
		<b>454,378</b>	<b>3,312,006</b>
Less: Cash and cash equivalents	11	15,677,729	959,918
Net debt		(15,223,351)	2,352,088
Total equity		259,053,215	215,926,309
<b>Total capital</b>		<b>243,829,864</b>	<b>218,278,397</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 37. Risk management (continued)

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (fair value interest rate risk), liquidity risk and credit risk.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2015 and 2014, the municipality's borrowings were denominated in the Rand.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. Sales to retail customers are settled in cash or using major credit cards.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Bank	15,673,901	956,158
Other	15,890,198	11,917,346

### 38. Events after the reporting date

There were no material events after the reporting date.

### 39. Unauthorised expenditure

Unauthorised expenditure	-	13,646,057
Per Budget to Actual	-	(13,062,114)
Per Budget to Actual - Current year	5,525,338	13,189,814
	<b>5,525,338</b>	<b>13,773,757</b>

### 40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	2,466
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### 41. Irregular expenditure

Opening balance	27,846,684	26,007,391
Add: Irregular Expenditure - current year	683,746	1,839,293
	<b>28,530,430</b>	<b>27,846,684</b>

# Nongoma Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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### 42. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	-	138,853
Current year subscription / fee	500,000	807,790
Amount paid - current year	(500,000)	(807,790)
Amount paid previous years	-	138,853
Amount paid in advance	(527,640)	-
	<b>(527,640)</b>	<b>-</b>

The municipality is the member of South African Local Government Association (SALGA) in respect of which annual membership fees are paid.

#### Audit fees

Opening balance	18,674	46,344
Current year subscription / fee	1,271,260	1,260,716
Amount paid - current year	(1,256,994)	(1,242,042)
Amount paid - previous years	(18,674)	(46,344)
	<b>14,266</b>	<b>18,674</b>

#### PAYE and UIF

Opening balance	-	508,269
Current year subscription / fee	7,793,109	5,811,527
Amount paid - current year	(7,793,109)	(5,811,527)
Amount paid - previous years	-	(508,269)
	<b>-</b>	<b>-</b>

#### Pension and Medical Aid Deductions

Opening balance	-	719,246
Current year subscription / fee	14,510,339	7,175,850
Amount paid - current year	(14,510,339)	(7,175,850)
Amount paid - previous years	-	(719,246)
	<b>-</b>	<b>-</b>

#### VAT

VAT receivable	265,834	406,914
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The municipality is on the payment basis of VAT. VAT receivables are shown in note 9.

All VAT returns have been submitted by the due date throughout the year.